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SUBJECT: KAZAKHSTAN: SHELL'S CANDID CONVERSATION WITH UK EURASIAN
ENERGY OFFICERS

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY. On October 31, energy officer was the only non-British government official invited to a briefing by Neil Carmichael (protect), Shell's General Manager for Business Development in Central Asia, given to British energy officers covering Eurasia. Carmichael provided an overview of Shell's projects and prospects in Kazakhstan and Turkmenistan and delivered a withering critique of the European Union's energy policy. END SUMMARY.

ABUNDANT OPPORTUNITIES IN KAZAKHSTAN

13. (SBU) Carmichael was excited about the company's portfolio in Kazakhstan, where Shell has invested approximately \$3 billion in four projects: the Kashagan Production Sharing Agreement (16.81% ownership), the Arman Joint Venture with Canada's Nelson Resources (50%), the Pearls Block (40%), and the Caspian Pipeline Consortium (5.5%). He said that Shell will announce the results of appraisal drilling in the Pearls Block in early November and claimed that there is "a significant amount of oil and gas in Kazakhstan yet to be discovered." For example, Carmichael said that in the pre-Caspian basin, Shell expects there are fields the size of "two or three Karachaganaks" and in the Amu Darya basin, up to "four or five Astrakhans." (NOTE: DOE's Energy Information Administration estimates that Karachaganak contains up to six billion recoverable barrels of oil and gas condensate reserves and up to 1.3 trillion cubic meters of recoverable natural gas reserves. The Astrakhan Gas Condensate Field is estimated to contain commercial reserves of up to 2.5 trillion cubic meters of gas and 400 million tons of gas condensate. END NOTE).

A SHELL GAME IN TURKMENISTAN

14. (SBU) Commenting on the recent Gaffney Cline audit of Turkmenistan's gas reserves, Carmichael expressed skepticism about the accuracy of the report. He alleged that it was based entirely on documents provided by the government, and wryly observed that

audit findings were announced on the eve of Turkmenistan's annual oil and gas exhibition and just ahead of the annual renegotiation of gas contracts with Russia, China, and Iran. "They're talking up their reserves and using expressions of interest from foreign companies to strengthen their position. We're a useful negotiating tool," he said. (NOTE: Gaffney Cline announced on October 13 that it estimates reserves at the South Yolotan-Osman field at 4 to 14 tcm and reserves at Yashlar at 700 bcm to 1.5 tcm. END NOTE). Carmichael said that Shell will continue to be patient as it pursues projects in Turkmenistan, although he does not anticipate a deal anytime soon: "Their concept of foreign investment is bringing in a French construction company to build shiny new marble buildings," he said. "They have no understanding of the role that foreign investment can play in freeing up domestic government spending for schools, education, or health care."

BRUSSELS OFFICIALS HARSHLY CRITICIZED

15. (SBU) When asked by one of the UK energy officers how European policymakers could assist Shell in the region, Carmichael replied with disdain, "Brussels is no help at all. They've actually undermined our ability to make money. All they do is pontificate about the nature of the human soul. They need to get serious and get engaged -- like the Americans." Carmichael cited the EU's refusal to support the development of an energy research and technology transfer center and called EU energy officials "mostly rubbish," with the notable exception of Commissioner Andris Piebalgs, whom Carmichael praised for his diplomatic skills, Russian language ability, and personal charisma. "He was even able to charm President Berdimukhamedov, which takes a special talent."

EU URGED TO FOCUS ON CASPIAN OIL NOT GAS

ASTANA 00002175 002 OF 002

16. (SBU) Noting that both Kazakhstan and Turkmenistan are at best several years away from exporting significant quantities of natural gas to Europe, Carmichael urged the assembled UK energy officers to focus their efforts instead on promoting a new oil transportation system from Central Asia to Europe. "Unless someone creates an alternative route," he warned, "Central Asia's hydrocarbons will go to Russia and be controlled by Russia." Carmichael acknowledged that it would take a "massive diplomatic and commercial effort" similar to the construction of the Baku-Tbilisi-Ceyhan pipeline to provide a proper framework for a fully-functioning Kazakhstan Caspian Transportation System (KCTS) or a trans-Caspian oil pipeline, but he insisted that oil would pay more dividends than gas. His audience was sympathetic, but said their policy was plain: "Europe is worried about its dependence on Russian gas," one explained. "We don't have an oil shortage."

17. (SBU) COMMENT. The British energy officers candidly acknowledged their limited diplomatic resources and the EU's bureaucratic shortcomings in front of an American colleague, but were defensive when Shell's Carmichael suggested that U.S. energy policy was more forceful and more effective in the region than Europe's. They noted that their policy mandate was to focus on gas shipments to Europe. They also pointedly criticized the "non-transparent" manner in which ConocoPhillips was awarded negotiating rights to Kazakhstan's onshore Caspian N Block, which Shell had pursued for years. END COMMENT.

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